

**CITY OF SANBORN, IOWA
INDEPENDENT AUDITORS' REPORTS
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS**

JUNE 30, 2004

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CITY OF SANBORN, IOWA

OFFICIALS

Name	Title	Term Expires
(Before January 2004)		
Donald Kroese	Mayor	January 2004
Edwin Visser	Mayor Pro tem	January 2004
Tim Devitt	Council Member	January 2004
Duane Van Veldhuizen	Council Member	January 2004
Ron Schott	Council Member	January 2006
Dennis Van Veldhuizen, Sr.	Council Member	January 2006
(After January 2004)		
Thomas Ginger	Mayor	January 2006
Duane Van Veldhuizen	Mayor Pro tem	January 2008
Edwin Visser	Council Member	January 2008
Tim Devitt	Council Member	January 2008
Ron Schott	Council Member	January 2006
Dennis Van Veldhuizen, Sr.	Council Member	January 2006
Jim Zeutenhorst	City Administrator	Appointed
Brian Pals	Clerk	Appointed
Candice Lyman	Deputy Clerk/Accountant	Appointed
Daniel DeKoter	Attorney	Appointed

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying primary government financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Sanborn, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the City's primary government basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Sanborn's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

These financial statements include financial data only for the primary government. A primary government is a legal entity or body politic and includes all funds, organizations, institutions, agencies, departments, and offices that are not legally separate. Such legally separate entities are referred to as component units. Inclusion of financial data of the City's component unit would be required if the City intended to present financial statements in accordance with generally accepted accounting principles.

Business services that save you money:

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- Pension, estate & retirement planning • Budgeting & financial planning • Financial projections
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For your convenience:

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- Early morning, evening & Saturday hours • Ten-day turnaround on financial statements
- Meetings at your place or ours

In our opinion, the primary government financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the primary government of the City of Sanborn, Iowa, as of June 30, 2004, and the respective changes in cash basis financial position for the year ended in conformity with the basis of accounting described in note 1.

As described in Note 13, during the year ended June 30, 2004, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our report dated November 3, 2004 on our consideration of the City of Sanborn's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 9 and 20 through 21 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Sanborn's primary government basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003 (none of which are presented herein), and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is stated fairly in all material respects in relation to the basic financial statements taken as a whole.

Campbell, Higgins & Associates, PC
CAMPBELL, HIGGINS & ASSOCIATES, P.C.
Certified Public Accountants

November 3, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Sanborn provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the City's financial position and results of operations.

2004 FINANCIAL HIGHLIGHTS

- Total receipts decreased 17.6%, or approximately \$728,000, from fiscal 2003 to fiscal 2004. A decrease in warrant proceeds of \$1,160,000 was the major factor in the overall decrease.
- Disbursements increased 37.6%, or approximately \$1,161,000, in fiscal 2004 from fiscal 2003. Public works and business type activities disbursements increased approximately \$705,000 and \$370,000, respectively.
- The City's total cash basis net assets decreased 34.4%, or approximately \$842,000, from June 30, 2003 to June 30, 2004. Of this amount, the assets of the governmental activities decreased approximately \$500,000 and the assets of the business type activities decreased by approximately \$342,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-Wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the water, gas, sewer and solid waste collection systems. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1. Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax, Urban Renewal Tax Increment, and Local Option Sales Tax and 3) the Debt Service Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

2. Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains four Enterprise Funds to provide separate information for the water, gas, sewer rental and solid waste collection funds, considered to be major funds of the City.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased sharply from a year ago, decreasing from approximately \$1,107,000 to approximately \$607,000. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)		
	Year Ended June 30,	
	2004	2003
Receipts and Transfers:		
Program Receipts:		
Charges for Services -----	\$ 204	\$ 174
Operating Grants, Contributions and Restricted Interest --	18	9
Capital Grants, Contributions and Restricted Interest -----	355	394
General Receipts:		
Property Tax -----	570	552
Local Option Sales Tax -----	83	85
Grants and Contributions Not Restricted		
to Specific Purposes -----	57	56
Unrestricted Interest on Investments -----	9	10
Miscellaneous -----	20	20
Sale of Assets -----	11	24
Warrant Proceeds -----	-	576
Transfers, Net -----	48	65
Total Receipts and Transfers -----	<u>1,375</u>	<u>1,965</u>
Disbursements:		
Public Safety -----	182	154
Public Works -----	610	239
Health and Social Services -----	1	-
Culture and Recreation -----	253	240
Community and Economic Development -----	442	433
General Government -----	155	126
Debt Service -----	232	227
Total Disbursements -----	<u>1,875</u>	<u>1,419</u>
Increase (Decrease) in Cash Basis Net Assets -----	(500)	546
Cash Basis Net Assets Beginning of Year -----	<u>1,107</u>	<u>561</u>
Cash Basis Net Assets End of Year -----	<u>\$ 607</u>	<u>\$ 1,107</u>

The City's total receipts for governmental activities decreased by 30.0%, or approximately \$590,000. The total cost of all programs and services increased by approximately \$456,000, or 32.1%, with no new programs added this year. The significant decrease in receipts was primarily the result of warrant proceeds received in the prior year. The significant increase in disbursements was primarily the result of increased construction project activity.

There were no significant changes in property tax rates for the current year and no significant changes are budgeted for next year.

The cost of all governmental activities this year was \$1.875 million compared to \$1.419 million last year. However, as shown in the Statement of Activities and Net Assets on pages 10 - 11, the amount taxpayers ultimately financed for these activities was only \$1.298 million because some of the cost was paid by those directly benefited from the programs (\$198,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$379,000). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, were approximately equal to \$577,000 for both 2003 and 2004. The City paid for the remaining "public benefit" portion of governmental activities with approximately \$653,000 in tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements as well as cash reserves.

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)		
	Year Ended June 30,	
	2004	2003
Receipts:		
Program Receipts:		
Charges for Services:		
Water	\$ 194	\$ 185
Gas	1,238	1,051
Sewer Rental	270	228
Solid Waste Collection	79	64
Capital Grants, Contributions and Restricted Interest	290	98
General Receipts:		
Unrestricted Interest on Investments	12	13
Warrant Proceeds	-	584
Total Receipts	<u>2,083</u>	<u>2,223</u>
Disbursements and Transfers:		
Water	799	329
Gas	1,162	1,004
Sewer Rental	339	225
Solid Waste Collection	77	115
Transfers, Net	48	65
Total Disbursements and Transfers	<u>2,425</u>	<u>1,738</u>
Increase (Decrease) in Cash Basis Net Assets	(342)	485
Cash Basis Net Assets Beginning of Year	<u>1,340</u>	<u>855</u>
Cash Basis Net Assets End of Year	<u>\$ 998</u>	<u>\$ 1,340</u>

Total business type activities receipts for the fiscal year were \$2.083 million compared to \$2.223 million last year. This overall decrease was due to several factors including an increase in total charges for services of approximately \$253,000, an increase in grant proceeds of approximately \$192,000 and a decrease in warrant proceeds of approximately \$584,000. Total disbursements and transfers for the fiscal year increased by 39.5% to a total of \$2.425 due mainly to capital improvements to the water system.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Sanborn completed the year, its governmental funds reported a combined fund balance of \$607,190, a decrease of approximately \$500,000 from last year's total of \$1,107,136. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased approximately \$383,000 from the prior year to \$183,086. This decrease was mainly due to an approximately \$400,000 increase in street project capital outlays in the current year.
- The Road Use Tax Fund cash balance increased approximately \$10,000 from the prior year to \$11,945.
- The Urban Renewal Tax Increment Fund cash balance decreased by approximately \$57,000 from the prior year to \$196,735. The decrease was the result of a \$55,000 transfer to the General Fund to reimburse that fund for excess warrant proceeds deposited into the Urban Renewal Tax Increment Fund in the prior year.
- The Local Option Sales Tax Fund cash balance increased approximately \$7,000 from the prior year to \$92,093. This increase was due to a decrease in total disbursements and transfers to other funds.
- The Debt Service Fund cash balance decreased by approximately \$14,000 from the prior year to \$15,868. This decrease was due to a decrease in property tax receipts and an increase in total note principal and interest payments.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased by approximately \$312,000 from the prior year to \$319,873, due primarily to an increase in disbursements relating to water system capital improvements.
- The Gas Fund cash balance increased by approximately \$33,000 from the prior year to \$495,312, due mainly to an increase in gas rates and a decrease in transfers to other funds.
- The Sewer Rental Fund cash balance decreased by approximately \$66,000 from the prior year to \$166,677, due primarily to cost increases outpacing increases in sewer receipts.
- The Solid Waste Collection cash balance increased by approximately \$2,600 from the prior year to \$16,042.

BUDGETARY HIGHLIGHTS

The City of Sanborn had a budget amendment which was approved on May 24, 2004. The amendment provided for a total of \$20,000 of additional disbursements in certain City departments. The City had sufficient cash balances to absorb these additional costs.

DEBT ADMINISTRATION

At June 30, 2004, the City had approximately \$1,740,000 in bonds and other long-term debt, compared to \$1,930,000 last year, as shown below.

	Outstanding Debt at Year-End (Expressed in Thousands)	
	June 30,	
	2004	2003
General Obligation Notes -----	\$ 580	\$ 770
Anticipatory Warrants -----	1,160	1,160
Total -----	<u>\$ 1,740</u>	<u>\$ 1,930</u>

Debt decreased as a result of payment of principal on general obligation notes.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$1,740,000 is significantly below its constitutional debt limit of \$2,559,000.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Sanborn's elected and appointed officials and citizens considered many factors when setting the fiscal year 2005 budget, tax rates, and fees that will be charged for various City activities. Some of these factors are the economy, inflation, and state budget cuts.

Inflation in the State continues to be somewhat lower than the national Consumer Price Index increase. The State's CPI increase was 3.2 percent for fiscal year 2004 compared with the national rate of 3.4 percent.

These factors were taken into account when adopting the budget for fiscal year 2005. Total budgeted receipts and net other sources are \$3.631 million, an increase of approximately 6% compared with the current year actual results. Budgeted disbursements are \$4.178 million, a decrease of approximately 2% compared to the current year actual results. The City has added no major new programs or initiatives to the 2005 budget.

If these estimates are realized, the City's budgeted cash balance is expected to decrease by approximately \$547,000 by the close of 2005.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Clerk, 102 Main Street, Sanborn, Iowa.

FINANCIAL STATEMENTS

CITY OF SANBORN, IOWA

STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS - PRIMARY GOVERNMENT
AS OF AND FOR THE YEAR ENDED JUNE 30, 2004

Functions / Programs:	Program Receipts			Net (Disbursements) Receipts and		
	Disbursements	Charges for Services	Operating Grants, Contributions, and Restricted Interest	Governmental Activities	Business Type Activities	Total
Governmental Activities:						
Public Safety	\$ 182,565	\$ 35,808	\$ 3,315	\$ (143,442)	\$ -	\$ (143,442)
Public Works	609,805	-	-	(420,052)	-	(420,052)
Health and Social Services	1,000	-	-	(1,000)	-	(1,000)
Culture and Recreation	253,035	164,367	13,841	(74,827)	-	(74,827)
Community and Economic Development	442,190	-	-	(276,581)	-	(276,581)
General Government	154,852	4,117	-	(150,735)	-	(150,735)
Debt Service	232,014	-	526	(231,488)	-	(231,488)
Total Governmental Activities	1,875,461	204,292	17,682	(1,298,125)	-	(1,298,125)
Business Type Activities:						
Water	799,347	193,612	-	-	(315,533)	(315,533)
Gas	1,162,367	1,238,238	-	-	75,871	75,871
Sewer Rental	339,428	270,518	-	-	(68,910)	(68,910)
Solid Waste Collection	76,936	79,318	-	-	2,382	2,382
Total Business Type Activities	2,378,078	1,781,686	-	-	(306,190)	(306,190)
Total	\$ 4,253,539	\$ 1,985,978	\$ 17,682	(1,298,125)	(306,190)	(1,604,315)
General Receipts:						
Property Tax Levied For:						
General Purposes				153,169	-	153,169
Insurance				22,399	-	22,399
Tax Increment Financing				251,102	-	251,102
Debt Service				80,823	-	80,823
Employee Benefits				62,227	-	62,227
Local Option Sales Tax				83,314	-	83,314
Grants and Contributions Not Restricted to Specific Purposes				57,000	-	57,000
Unrestricted Interest on Investments				9,135	12,516	21,651
Miscellaneous				19,710	-	19,710
Sale of Assets				10,800	-	10,800
Transfers				48,500	(48,500)	-
Total General Receipts and Transfers				798,179	(35,984)	762,195
Change in Cash Basis Net Assets				(499,946)	(342,174)	(842,120)
Cash Basis Net Assets Beginning of Year, As Restated				1,107,136	1,340,078	2,447,214
Cash Basis Net Assets End of Year				\$ 607,190	\$ 997,904	\$ 1,605,094

See Notes to Financial Statements

STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS - PRIMARY GOVERNMENT (CONTINUED)
AS OF AND FOR THE YEAR ENDED JUNE 30, 2004

	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Operating Grants, Capital Grants, Contributions, and Restricted Interest			Business Type Activities		
	Charges for Services	and Restricted Interest	Contributions, and Restricted Interest	Governmental Activities	Business Type Activities	Total
Cash Basis Net Assets:						
Restricted:						
Streets				\$ 11,945	\$ -	\$ 11,945
Urban Renewal Purposes				196,735	-	196,735
Debt Service				15,868	-	15,868
Other Purposes				2,170	-	2,170
Unrestricted				380,472	997,904	1,378,376
Total Cash Basis Net Assets				\$ 607,190	\$ 997,904	\$ 1,605,094

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS - PRIMARY GOVERNMENT
AS OF AND FOR THE YEAR ENDED JUNE 30, 2004

	Special Revenue				Other Nonmajor	
	General	Road Use Tax	Urban Renewal Tax Increment	Local Option Sales Tax	Debt Service	Governmental Funds
						Total
Receipts:						
Property Tax	\$ 175,568	\$ -	\$ -	\$ -	\$ 80,823	\$ 62,227
Tax Increment Financing Collections	-	-	251,102	-	-	-
Other City Tax	-	-	-	83,314	-	-
Licenses and Permits	2,617	-	-	-	-	-
Use of Money and Property	52,007	-	2,149	1,321	620	1,887
Intergovernmental	74,800	112,688	72,050	-	-	77,798
Charges for Service	145,180	-	-	-	-	-
Special Assessments	65,285	-	-	-	11,780	-
Miscellaneous	29,038	-	-	-	-	-
Total Receipts	544,495	112,688	325,301	84,635	93,223	166,673
						1,327,015
Disbursements:						
Public Safety	149,367	-	-	-	-	33,198
Public Works	491,310	102,536	-	-	-	15,959
Health and Social Services	1,000	-	-	-	-	-
Culture and Recreation	240,965	-	-	-	-	12,070
Community and Economic Development	435	-	202,474	77,612	-	161,669
General Government	147,825	-	-	-	-	7,027
Debt Service	-	-	-	-	232,014	-
Total Disbursements	1,030,902	102,536	202,474	77,612	232,014	229,923
						1,875,461
Excess (Deficiency) of Receipts Over (Under) Disbursements	(486,407)	10,152	122,827	7,023	(138,791)	(63,250)
						(548,446)
Other Financing Sources (Uses):						
Operating Transfers In (Out)	103,500	-	(179,982)	-	124,982	-
						48,500
Excess (Deficiency) of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	(382,907)	10,152	(57,155)	7,023	(13,809)	(63,250)
						(499,946)
Balance at Beginning of Period, As Restated	565,993	1,793	253,890	85,070	29,677	170,713
						1,107,136
Balance at End of Period	\$ 183,086	\$ 11,945	\$ 196,735	\$ 92,093	\$ 15,868	\$ 107,463
						\$ 607,190
Cash Basis Fund Balances						
Reserved:						
Debt Service	\$ -	\$ -	\$ -	\$ -	\$ 15,868	\$ -
Unreserved:						
General Fund	183,086	-	-	-	-	-
Special Revenue Funds	-	11,945	196,735	92,093	-	107,463
Total Cash Basis Fund Balances	\$ 183,086	\$ 11,945	\$ 196,735	\$ 92,093	\$ 15,868	\$ 107,463
						\$ 607,190

See Notes to Financial Statements

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS - PRIMARY GOVERNMENT
AS OF AND FOR THE YEAR ENDED JUNE 30, 2004

	Enterprise Funds			
	Water	Gas	Sewer Rental	Solid Waste Collection Total
Operating Receipts:				
Use of Money and Property -----	\$ -	\$ 1,185	\$ -	\$ 1,185
Charges for Service -----	193,612	1,237,053	270,518	79,318 1,780,501
Total Operating Receipts	193,612	1,238,238	270,518	79,318 1,781,686
Operating Disbursements:				
Business Type Activities -----	799,347	1,162,367	339,428	76,936 2,378,078
Excess (Deficiency) of Operating Receipts Over (Under) Operating Disbursements	(605,735)	75,871	(68,910)	2,382 (596,392)
Non-operating Receipts (Disbursements):				
Intergovernmental -----	290,202	-	-	- 290,202
Interest on Investments -----	4,021	5,561	2,744	190 12,516
Total Non-operating Receipts (Disbursements)	294,223	5,561	2,744	190 302,718
Excess (Deficiency) of Receipts Over (Under) Disbursements	(311,512)	81,432	(66,166)	2,572 (293,674)
Other Financing Sources (Uses):				
Operating Transfers In (Out) -----	-	(48,500)	-	- (48,500)
Net Change in Cash Balances	(311,512)	32,932	(66,166)	2,572 (342,174)
Cash Balances at Beginning of Year - Unreserved, As Restated	631,385	462,380	232,843	13,470 1,340,078
Cash Balances at End of Year - Unreserved	\$ 319,873	\$ 495,312	\$ 166,677	\$ 16,042 \$ 997,904

CITY OF SANBORN, IOWA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Sanborn, Iowa is a political subdivision of the State of Iowa located in O'Brien County. It was first incorporated in 1878 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture, recreation, public improvements and general administrative services.

A. Reporting Entity

For financial reporting purposes, the City of Sanborn has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set for criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City.

These primary government financial statements present only the amounts of the City of Sanborn and not its component unit – Sanborn Electric and Telecommunications Utility. Disclosures about the component unit are not included because the component unit has been audited separately, and a report has been issued under separate cover. The audited financial statements are available at the Sanborn Electric and Telecommunications Utility office.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Northwest Iowa Landfill Association, E-911 Board, Northwest Iowa League of Cities Board, Northern Municipal Distributors Group, O'Brien County Economic Development Board, Vector Safety Board and the Northwest Iowa Planning Commission.

B. Basis of Presentation

Government-Wide Financial Statements – The Statement of Activities and Net Assets reports information on all of the non-fiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Urban Renewal Tax Increment Fund is used to account for projects financed by tax increment financing.

The Local Option Sales Tax Fund is used to account for receipts and disbursements relating to local option sales tax.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Gas Fund accounts for the operation and maintenance of the City's gas system.

The Sewer Rental Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Solid Waste Collection Fund accounts for the operation and maintenance of the City's solid waste collection activities.

C. Measurement Focus and Basis of Accounting

The City of Sanborn maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the public safety, public works and general government functions.

NOTE 2 – CASH AND POOLED INVESTMENTS

The City's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments at June 30, 2004. For purposes of this report, certificates of deposit are not considered investments as they are subject to withdrawal upon demand.

NOTE 3 – NOTES PAYABLE

Annual debt service requirements to maturity for general obligation notes are as follows:

Year Ending June 30,	Principal	Interest
2005	\$ 85,000	\$ 29,648
2006	90,000	25,456
2007	95,000	20,918
2008	95,000	16,095
2009	105,000	11,225
2010	<u>110,000</u>	<u>5,780</u>
Total	<u>\$ 580,000</u>	<u>\$ 109,122</u>

NOTE 4 – ANTICIPATORY WARRANTS

During the fiscal year ended June 30, 2003, the City entered into an agreement with Ruan Securities to assist in the financing of construction warrants for the Franklin Street Paving and Water Distribution System Improvements Project. The \$1,160,000 in warrants will mature on July 1, 2004. Interest accrues at the rate of 1.75%, and was payable on January 1, 2004, and at maturity.

NOTE 5 - PENSION AND RETIREMENT BENEFITS

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of annual covered payroll except for police employees, in which case the percentages are 5.93% and 8.907%, respectively. For the year ended June 30, 2003, the contribution rates for police employees and the City were 6.04% and 9.07%, respectively, and for the year ended June 30, 2002, the contribution rates for police employees and the City were 6.20% and 9.29%, respectively. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$27,141, \$25,929, and \$26,415, respectively, equal to the required contributions for each year.

NOTE 6 – COMPENSATED ABSENCES

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement, or death. Earned but unused sick leave hours are for subsequent use only. These accumulations are not recognized as expenditures by the City until used or paid. The City's approximate liability for earned vacation at June 30, 2004 was \$17,080. This liability has been computed based on rates of pay in effect at June 30, 2004.

NOTE 7 – JOINT VENTURE

The City of Sanborn has a 46% interest in a joint venture with the City of Hartley to provide garbage collection service. The cities participate in the collection of garbage, which is under the general management of one representative of each City Council. The following information summarizes the activity of the joint venture through June 30, 2004:

Cash Balance at July 1, 2003	\$ 3,679
Add Receipts	98,718
Less Disbursements	(97,072)
Cash Balance at June 30, 2004	<u>\$ 5,325</u>

The City of Sanborn performs no receipts or disbursements functions for this joint venture. The City of Sanborn has a 46% interest in the assets, property and equipment, equity and net income. The above activity is not included in these financial statements.

NOTE 8 – ECONOMIC DEPENDENCY

The Water, Sewer and Gas enterprise funds of the City of Sanborn derived the following receipts from Associated Milk Producers, Inc. for the fiscal year ended June 30, 2004:

	<u>Amount</u>	<u>% of Total</u>
Sale of Water	\$ 62,648	32.6%
Sewer Rental Fees	180,877	66.9%
Sale of Gas	672,176	54.8%

NOTE 9 – RELATED PARTY TRANSACTIONS

The City had business transactions between the City and City officials, totaling \$1,256 during the year ended June 30, 2004.

NOTE 10 – RISK MANAGEMENT

The City of Sanborn is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 11 – CONTINGENT LIABILITY

The City guarantees loans that the Sanborn Improvement Association has with a local financial institution. The total balance of these loans at the beginning and end of the fiscal year was \$260,017 and \$0, respectively.

NOTE 12 – DEFICIT FUND BALANCES

The Special Revenue Fund – Housing Grant Account had a deficit balance of \$54,638 at June 30, 2004. The deficit balance was a result of project costs incurred prior to availability of funds. The deficit will be eliminated upon receipt of grant monies.

NOTE 13 – ACCOUNTING CHANGE AND RESTATEMENTS

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2004. The statements create new basic financial statements for reporting the City's financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The Equipment Replacement Fund has previously been reported as an internal service fund. Under GASB 34, this fund does not meet the definition of an internal service fund. Therefore, the beginning balance in this fund was allocated back to the individual funds that had originally contributed to this fund. As a result, the beginning balances on the government-wide and fund financial statements have been restated as noted below.

	<u>Beginning Balances As Previously Reported</u>	<u>Equipment Replacement Fund</u>	<u>Beginning Balances As Restated</u>
Government-Wide			
Financial Statements:			
Governmental Activities -----	\$ 1,044,066	\$ 63,070	\$ 1,107,136
Business Type Activities -----	<u>1,271,702</u>	<u>68,376</u>	<u>1,340,078</u>
Totals	<u>\$ 2,315,768</u>	<u>\$131,446</u>	<u>\$ 2,447,214</u>
Fund Financial Statements:			
Governmental Funds:			
General Fund -----	\$ 502,923	\$ 63,070	\$ 565,993
Road Use Tax Fund -----	1,793	-	1,793
Urban Renewal Tax			
Increment Fund -----	253,890	-	253,890
Local Option Sales Tax Fund -----	85,070	-	85,070
Debt Service Fund -----	29,677	-	29,677
Other Nonmajor			
Governmental Funds -----	<u>170,713</u>	<u>-</u>	<u>170,713</u>
Total Governmental Funds	<u>\$ 1,044,066</u>	<u>\$ 63,070</u>	<u>\$ 1,107,136</u>
Proprietary Funds:			
Water Fund -----	\$ 590,710	\$ 40,675	\$ 631,385
Gas Fund -----	416,736	45,644	462,380
Sewer Rental Fund -----	254,696	(21,853)	232,843
Solid Waste Collection Fund -----	<u>9,560</u>	<u>3,910</u>	<u>13,470</u>
Total Proprietary Funds	<u>\$ 1,271,702</u>	<u>\$ 68,376</u>	<u>\$ 1,340,078</u>

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCES - BUDGET AND ACTUAL (CASH BASIS)
ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS - PRIMARY GOVERNMENT
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2004

	Governmental Funds Actual	Proprietary Funds Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
Receipts:						
Property Tax -----	\$ 318,618	\$ -	\$ 318,618	\$ 315,142	\$ 315,142	\$ 3,476
Tax Increment Financing Collections -----	251,102	-	251,102	240,000	240,000	11,102
Other City Tax -----	83,314	-	83,314	75,002	75,002	8,312
Licenses and Permits -----	2,617	-	2,617	3,750	3,750	(1,133)
Use of Money and Property -----	57,984	13,701	71,685	30,150	30,150	41,535
Intergovernmental -----	337,336	290,202	627,538	1,079,041	1,079,041	(451,503)
Charges for Service -----	145,180	1,780,501	1,925,681	1,476,650	1,476,650	449,031
Special Assessments -----	77,065	-	77,065	5,000	5,000	72,065
Miscellaneous -----	53,799	-	53,799	29,750	29,750	24,049
Total Receipts	1,327,015	2,084,404	3,411,419	3,254,485	3,254,485	156,934
Disbursements:						
Public Safety -----	182,565	-	182,565	168,725	178,725	(3,840)
Public Works -----	609,805	-	609,805	189,250	189,250	(420,555)
Health and Social Services -----	1,000	-	1,000	1,000	1,000	-
Culture and Recreation -----	253,035	-	253,035	328,575	328,575	75,540
Community and Economic Development -----	442,190	-	442,190	707,500	707,500	265,310
General Government -----	154,852	-	154,852	127,825	137,825	(17,027)
Debt Service -----	232,014	-	232,014	232,700	232,700	686
Capital Projects -----	-	-	-	1,075,000	1,075,000	1,075,000
Business Type Activities -----	-	2,378,078	2,378,078	3,163,125	3,163,125	785,047
Total Disbursements	1,875,461	2,378,078	4,253,539	5,993,700	6,013,700	1,760,161
Excess (Deficiency) of Receipts Over (Under) Disbursements	(548,446)	(293,674)	(842,120)	(2,739,215)	(2,759,215)	1,917,095
Other Financing Sources, Net	48,500	(48,500)	-	2,268,200	2,268,200	(2,268,200)
Excess (Deficiency) of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	(499,946)	(342,174)	(842,120)	(471,015)	(491,015)	(351,105)
Balance - Beginning of Period	1,107,136	1,340,078	2,447,214	1,550,440	1,550,440	896,774
Balance - End of Period	\$ 607,190	\$ 997,904	\$ 1,605,094	\$ 1,079,425	\$ 1,059,425	\$ 545,669

CITY OF SANBORN, IOWA**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –
BUDGETARY REPORTING****JUNE 30, 2004**

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements, known as functions, not by fund or fund type. These ten functions are public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business-type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, a budget amendment increased budgeted disbursements by \$20,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the public safety, public works and general government functions.

OTHER SUPPLEMENTARY INFORMATION

**COMBINING SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS - PRIMARY GOVERNMENT
AS OF AND FOR THE YEAR ENDED JUNE 30, 2004**

	Special Revenue					Total
	Low - Moderate Housing	Housing Grant	Day Care / Preschool Grant	Employee Benefits	Development	
Receipts:						
Property Tax -----	\$ -	\$ -	\$ -	\$ 62,227	\$ -	\$ 62,227
Use of Money and Property -----	53	-	-	-	1,834	1,887
Intergovernmental -----	-	77,798	-	-	-	77,798
Miscellaneous -----	-	-	15,761	-	9,000	24,761
Total Receipts	53	77,798	15,761	62,227	10,834	166,673
Disbursements:						
Operating:						
Public Safety -----	-	-	-	33,198	-	33,198
Public Works -----	-	-	-	15,959	-	15,959
Culture and Recreation -----	-	-	-	12,070	-	12,070
Community and Economic Development ----	-	134,787	15,761	-	11,121	161,669
General Government -----	-	-	-	7,027	-	7,027
Total Disbursements	-	134,787	15,761	68,254	11,121	229,923
Excess (Deficiency) of Receipts Over (Under) Disbursements	53	(56,989)	-	(6,027)	(287)	(63,250)
Cash Balances at Beginning of Year	4,457	2,351	-	8,197	155,708	170,713
Cash Balances at End of Year	\$ 4,510	\$ (54,638)	\$ -	\$ 2,170	\$ 155,421	\$ 107,463
Cash Basis Fund Balances						
Unreserved:						
Special Revenue Funds -----	\$ 4,510	\$ (54,638)	\$ -	\$ 2,170	\$ 155,421	\$ 107,463

CITY OF SANBORN, IOWA

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Schedule 2SCHEDULE OF INDEBTEDNESS - PRIMARY GOVERNMENT
YEAR ENDED JUNE 30, 2004

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
General Obligation Notes:									
Street Improvements -----	August 1, 1993	3.25% - 5.15%	\$ 95,000	\$ 10,000	\$ -	\$ 10,000	\$ -	\$ 515	\$ -
Sewer Improvements -----	February 1, 1995	5.75% - 6.70%	550,000	100,000	-	100,000	-	6,700	-
Street and Utility Improvements -----	July 1, 1999	4.20% - 5.00%	600,000	415,000	-	50,000	365,000	19,945	-
Street and Storm Sewer Improvements --	July 1, 2000	5.20% - 5.70%	300,000	245,000	-	30,000	215,000	13,623	-
Total General Obligation Notes				\$ 770,000	\$ -	\$ 190,000	\$ 580,000	\$ 40,783	\$ -
Anticipatory Warrants:									
Street and Water Distribution System Improvements -----	June 30, 2003	1.75%	\$ 1,160,000	\$ 1,160,000	\$ -	\$ -	\$ 1,160,000	\$ 10,206	\$ -

BOND AND NOTE MATURITIES - PRIMARY GOVERNMENT
JUNE 30, 2004

Year Ending June 30,	General Obligation Notes for Street and Sewer Improvements				
	Issued July 1, 1999		Issued July 1, 2000		Total
	Interest Rates	Amount	Interest Rates	Amount	
2005	4.65%	\$ 55,000	5.45%	\$ 30,000	\$ 85,000
2006	4.75%	55,000	5.50%	35,000	90,000
2007	4.80%	60,000	5.55%	35,000	95,000
2008	4.85%	60,000	5.60%	35,000	95,000
2009	4.90%	65,000	5.65%	40,000	105,000
2010	5.00%	70,000	5.70%	40,000	110,000
		<u>\$ 365,000</u>		<u>\$ 215,000</u>	<u>\$ 580,000</u>

**SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION -
ALL GOVERNMENTAL FUNDS**

	Years Ended June 30,			
	2004	2003	2002	2001
Receipts:				
Property Tax -----	\$ 318,618	\$ 316,319	\$ 316,776	\$ 318,794
Tax Increment Financing Collections -----	251,102	235,347	171,521	147,821
Other City Tax -----	83,314	84,696	82,142	78,318
Licenses and Permits -----	2,617	2,300	2,440	1,403
Use of Money and Property -----	57,984	46,741	104,145	87,409
Intergovernmental -----	337,336	470,666	407,540	311,079
Charges for Service -----	145,180	127,419	131,671	125,730
Special Assessments -----	77,065	14,587	15,391	39,681
Miscellaneous -----	53,799	42,177	26,274	71,087
Total Receipts	\$ 1,327,015	\$ 1,340,252	\$ 1,257,900	\$ 1,181,322
Disbursements:				
Operating:				
Public Safety -----	\$ 182,565	\$ 153,944	\$ 142,645	\$ 225,348
Public Works -----	609,805	239,587	133,718	164,432
Health and Social Services -----	1,000	-	1,000	1,000
Culture and Recreation -----	253,035	239,738	253,036	265,880
Community and Economic Development -----	442,190	432,916	283,660	201,581
General Government -----	154,852	125,728	122,398	102,432
Debt Service -----	232,014	227,023	226,270	293,912
Capital Projects -----	-	-	-	276,635
Total Disbursements	\$ 1,875,461	\$ 1,418,936	\$ 1,162,727	\$ 1,531,220

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

To the Honorable Mayor and
Members of the City Council:

We have audited the primary government financial statements of the City of Sanborn, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated November 3, 2004. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's primary government financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the primary government financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have not been resolved.

Business services that save you money:

- Business & individual tax preparation • Mid-year tax planning • Year-end tax planning
- Pension, estate & retirement planning • Budgeting & financial planning • Financial projections
- Small business management help • Computer consulting • IRS representation • Litigation support

For your convenience:

- Direct access to the principal ... always • Short phone consultations at no cost
- Early morning, evening & Saturday hours • Tax-day homework on financial statements
- Meetings at your place or ours

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item I-A-04 is a material weakness. Prior year reportable conditions have not been resolved.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Sanborn and other parties to whom the city of Sanborn may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Campbell, Higgins & Associates, P.C.

CAMPBELL, HIGGINS & ASSOCIATES, P.C.
Certified Public Accountants

November 3, 2004

CITY OF SANBORN, IOWA

SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2004Part I: Findings Related to the Financial Statements:**Reportable Conditions:**

- I-A-04 Segregation of Duties – One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that one employee performs most of the accounting functions of the City.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response – The City is in the process of dividing duties among staff to address any incompatible duties.

Conclusion – Response accepted.

- I-B-04 Authorized Check Signers and Dual signatures – During our testing we noted that the former mayor and a former employee were still listed as authorized check signers by the local bank. The current mayor was not listed as an authorized check signer.

Also, based upon inquiry of City personnel, it appears that the current mayor's signature is being affixed to checks (via a signature stamp) by someone other than the mayor.

Recommendation – The bank should be contacted to update the list of authorized check signers. The mayor's signature stamp should be used only by the mayor. In cases where the mayor is unavailable to sign the checks, two other authorized signatures should be obtained.

Response – The City is in the process of updating the list of check signers and checking the legality of having any two authorized signatures.

Conclusion – Response accepted.

Part II: Other Findings Related to Statutory Reporting:

II-A-04 Official Depositories – A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution do not appear to have been exceeded during the year ended June 30, 2004.

II-B-04 Certified Budget – Disbursements during the year ended June 30, 2004 exceeded the amounts budgeted in the public safety, public works and general government functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation – Although the budget was amended in accordance with Chapter 384.18 of the Code of Iowa, care should have been taken to ensure that the amendment was sufficient to prevent disbursements from exceeding the budget.

Response – In the future, better estimates of disbursements will be made to prevent disbursements from exceeding the budget.

Conclusion – Response accepted.

II-C-04 Questionable Disbursements – No disbursements for questionable items were noted.

II-D-04 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-E-04 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Edwin Visser, Council Member Owner of Visser Bros. Excavating	Maintenance Supplies and Contract Services	\$ 1,256

In accordance with Chapter 362.5(11) of the Code of Iowa, the transactions with the Council Member listed above do not appear to represent a conflict of interest since total transactions with the individual were less than \$2,500 during the fiscal year.

Part II: Other Findings Related to Statutory Reporting (Continued):

II-F-04 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-G-04 Council Minutes – The City did not publish annual gross salaries in accordance with an Attorney General's opinion dated April 12, 1978.

Recommendation – The City should publish annual individual salaries as required.

Response – The City will look into publishing annual individual salaries.

Conclusion – Response accepted.

II-H-04 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

II-I-04 Revenue Notes – The City had no revenue notes during the fiscal year ended June 30, 2004.

II-J-04 Financial Condition – As of June 30, 2004, the Special Revenue Housing Grant Fund had a deficit balance of \$54,638.

Recommendation – The City should investigate alternatives to eliminate this deficit in order to return this fund to a sound financial position.

Response – The City will monitor the Fund more closely to eliminate a deficit balance.

Conclusion – Response accepted.